



APPLIED GENERAL **APPLIED BUSINESS**

ABS1 Unit 1 Financial planning and analysis
Report on the Examination

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General Comments

Many students sit this examination after only one term of study. It is pleasing to see that many students have developed a good understanding of the key topics such as cash-flow, break-even analysis and the interpretation of financial information, in such a short period of time and despite the disruption they have experienced. Unfortunately, some students were confused as to what particular statements show, meaning that cash and profit or cash and capital are used interchangeably. This can make developing arguments difficult. For example, in question 10 some students described income statements as showing money coming into a business and stating this as an advantage. They are actually describing cash-flow which is not shown in an income statement and for the purposes of this question a disadvantage of income statements.

Generally subject knowledge was good with the exceptions of questions 6, 7 and to an extent 10.

In the 9 mark questions (questions 8, 9 and 10) students progressed easily from level 1 (AO1) to level 2 (AO2) responses, because most answers were in context and applied. The progression to level 3 (AO3) was less assured. There are no evaluation marks for these questions; however some students tried to provide a conclusion to serve as an evaluation.

Question 11 includes the interpretation of financial ratios. These ratios can be difficult for students new to the subject area. Students were comfortable in explaining these ratios.

Students were well prepared for this examination but, perhaps because of a lack of examination experience, there were instances of poor examination technique. There were examples of not reading the question properly. However, the most common example of poor technique was not to address the focus of the question. In order for the student to identify the knowledge required to answer each question on the paper, the knowledge requirement is emboldened. For example, in question 8 start-up and running costs are emboldened. The business in question is a limited company, which means that the selling of shares is an, in context, option. Many students saw the mention of limited company as an opportunity to write all they knew about companies such as having limited liability. However, they failed to use the other contextual information provided, such as the scale of the costs that needed to be met which helps to achieve level 3 marks.

Multiple Choice Questions

Questions 1 and 2 focused on knowledge. For question 1 most students correctly identified D (sole trader) as the correct answer. For question 2 a high number also correctly identified A (bank overdraft).

For Questions 3 and 4, where a two statement approach was used, the numbers of students correctly identifying the correct responses D and C were smaller but still encouraging, particularly question 3.

Question 5

Of the 3 mark questions question 5 proved the highest scoring question. Over 50% of students gained full marks and fewer than 10% gained no marks.

Question 6

The responses to this question were disappointing. Past papers, with questions asking for the calculation of break-even tended to be mostly correct. Here, students were asked specifically how break-even analysis could help set prices for Aisha's hairdressing salon. Students struggled with the concept of break-even analysis so could therefore not apply it to price setting in general and price setting in the context of the salon in particular.

Question 7

This was probably the most disappointing of the 3 mark questions. Whilst over 30% of students gained all 3 marks (higher than question 6); nearly 40% gained no marks.

Disappointingly many students regarded revenue expenditure as income rather than expenditure. Capital expenditure was often confused with share capital and also treated as income.

Question 8

Students gained more marks on this question than the other 9 mark questions. Successful answers selected suitable methods of financing start-up and running costs and then made use of the numerical information to show why this method would be suitable.

For start-up costs successful answers selected a bank loan (or selling shares to friends and family), identified that if savings were used as well then a loan of £18 000 would be suitable. This was linked to the revenue and costs figures to suggest that the loan could be repaid. Less successful answers identified bank loan and listed generic advantages and disadvantages with no implicit or explicit reference to the numerical data provided.

For running costs, successful answers identified retained profits or bank overdrafts as suitable methods. This was linked to the sales revenue, size of running costs and living costs to establish why this could work. Less successful answers chose methods like share capital or bank loans which made it difficult to link to the numerical data or the context of the question

Question 9

Students gained fewer marks on this question than on the other 9 mark questions.

As with question 8, most students were able to access level 2 marks, although in smaller numbers. Successful routes into level 2 included arranging an overdraft, taking longer to pay trade payables, collecting debts faster and offering cash discounts. More successful answers analysed the implications of their choice, such as the length of time an overdraft would be needed or how the relationship with customers and suppliers might be affected by changing trade credit periods. Some students tied their arguments to the short term profit implications of trade credit against the potential cash inflows. Successful answers made use of the information provided.

Some students were able to offer only one suitable method or none at all. Here options such as "buy less stock", "find cheaper suppliers" and "sell unwanted assets" were only rewarded with level 1. In the case of "buy less stock"; this would not help as the business needed to buy more stock to meet the potential demand. There was no mention in the question information that suppliers were expensive or that there were any unwanted assets available to sell.

Question 10

This question was closer to question 9 in terms of marks awarded than question 8. However, compared with question 9, it was significantly better answered.

Two particular features were evident in answers to this question.

The advantages to the bank of using these income statements when considering the financial performance of Damian's business tended to be well done. At level 2 students described the relevant information that a bank would want, such as profitability, and explained how Damian's business performed in that respect. They moved to level 3 by indicating that the bank would use this evidence to judge whether the business would be able to pay back this particular loan using the data provided. Unfortunately, some students were unable to display knowledge of what an income statement was or made incorrect statements such as shows "money going in and out of the business".

The disadvantages to the bank of using these income statements when considering the financial performance of Damian's business produced much more variable responses. More successful answers focused on what income statements do not show that might be of interest to the bank, such as solvency and liquidity. These students argued the merit of other statements such as cash-flow forecasts or statements of financial position. Less successful answers chose arguments that were not accurate or limited access to a level 3 response. For example, it is not a disadvantage to a bank to know that expenses have risen, in fact it could be quite helpful information in deciding to give a loan or not. A common argument was that only two income statements had been provided – a valid point but rather generic making it more difficult to progress to level 3.

Question 11

It was evident that this was an accessible question with just over half of all students gaining 10 or more marks. However only approximately 30% of students gained level 4 marks (13 or more).

The information provided before the question set the scene that The Pet Centre was an expanding business that in order to avoid competition wanted to increase turnover from services. However, most students did not use that information. The Pet Centre had the opportunity to buy a successful pet services business; the focus of the question was using the financial and market information to decide whether it should buy this business.

Using the financial information students were easily able to access level 2 by establishing that, whilst some ratios were discouraging, both turnover and gearing had improved. In order to reach level 3 this information needed to relate to whether The Pet Centre should buy Happy Tails Ltd. For example, indicating that the gearing ratio would not be an impediment to a getting a loan, would move the mark into level 3. For level 4, given the purchase price, whilst gearing would increase, it would not be that much of an issue. Unfortunately, many students focussed on the financial information provided for Happy Tails Limited and did not include The Pet Centre data. This proved a difficult route to make a level 4 argument, given that from the information provided it is obvious that Happy Tails Ltd is successful, which is why The Pet Centre is considering buying it.

Using market information students tended to find it easier to reach level 4 by identifying the key market information and suggesting that Happy Tails Ltd matched The Pet Centre's aspirations.

Some students lost focus by trying to include information not included in the question and basing arguments on this. The purpose of buying Happy Tails Ltd was for the database of customers that the app provided; some students lost sight of this. The information relating to the 20-40 age group was the idea that they would have more disposable income, rather than them being more technologically savvy.

Evaluation was strong, so students reaching level 4 and level 5 tended to receive marks towards the top of these mark bands.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.